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## FISCAL IMPACT REPORT

SPONSOR Moore DATE TYPED 1-26-04 HB 11

SHORT TITLE Wind Energy Generation Gross Receipts SB \_\_\_\_\_

ANALYST Neel

### REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY04	FY05			
	See Narrative (Significant)		Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

#### Responses Received From

Energy, Minerals and Natural Resources Department (EMNRD)

Public Regulation Commission (PRC)

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

House Bill 11 amends statute to expand the existing gross receipts deduction to include wind generation to non governmental entities.

#### Significant Issues

According to ENMRD, this bill would aid development of the wind power industry in New Mexico, with particular economic benefit to rural counties. The existing tax deduction is available only to projects that utilize Industrial Revenue Bond financing. H.B. 11 would allow more financing options, thus possibly enhance competition.

## FISCAL IMPLICATIONS

EMNRD estimates the fiscal impact to the general fund is \$350 thousand; TRD estimates \$60 thousand general fund impact and \$9 thousand local impact. The actual fiscal impact would most likely be some where in between these two estimates. EMNRD's estimate anticipates 100 percent of renewable energy sources prescribed under the RPS to be wind energy. Other sources such as solar and bio mass are excluded. TRD analysis appears to ignore the economies of scales to make such a large capital investment cost effective.

EMNRD estimates the fiscal impact based on:

- The NMPRC has issued a rule, the Renewable Portfolio Standard (RPS), requiring investor-owned utilities (IOUs) to include renewable energy sources for providing an additional one percent of their electrical sales in New Mexico each year (except Texas-New Mexico Power Company is exempt until 2006).
- The remaining three IOUs sell approximately 12.2 million megawatt-hours of electricity per year in New Mexico. So their obligation under the RPS will be to add roughly 122,000 MWh/yr each year to their generation mix, on average, to meet interim milestones.
- Assuming the IOUs meet their entire obligation with wind power, and assuming a typical wind capacity factor of 34%: wind generation nameplate capacity of about 40 MW should be installed each year.
- Three-quarters of this generation equipment is normally sold to local government under industrial revenue bond financing; and that remaining one-quarter (10 MW) will not be sold to government agencies.
- This amendment to the existing tax deduction affects only the 20 MW not sold to government agencies. The typical cost of the nacelle and associated equipment covered by this bill is \$700 thousand per MW, or \$7 million for the 10 MW each year. Assuming GRT of 5% due to State govt. general fund, the deduction will be \$350 thousand per year.

TRD's estimated fiscal impact is based on:

- 1,000 kWe of qualified wind electric generating equipment being installed in the coming year; which amounts to \$60 thousand impact to the state's general fund and approximately \$9 thousand to local government.

## TECHNICAL ISSUES

EMNRD notes that much of the loss of gross receipts tax revenues resulting from the proposed incentive would more than likely be offset by new revenues stemming from increased property tax valuations, increased corporate/personal income tax revenues, and other economic benefits associated with commercial wind energy development. However, this maybe a good case study for a dynamic analysis.

## OTHER SUBSTANTIVE ISSUES

The following is excerpted from EMNRD's New Mexico's Natural Resources 2003 Data and statistics for 2002:

In July 2003 the first commercial-size wind power plant in New Mexico commenced operation. Known as the New Mexico Wind Energy Center, it is 204 megawatts in capacity, the third largest wind power plant in the world. It is located in eastern New Mexico, about 20 miles northeast of Fort Sumner, Quay and De Baca counties. The wind power plant is owned and operated by FPL Energy and all the electricity is purchased by PNM.....

The potential for electricity generation from wind is enormous in some areas of New Mexico, especially on the eastern plains. New Mexico ranks twelfth in wind electric potential and is among twelve states in the midsection of the country that, together have 90 percent of the total commercial wind electric potential in the contiguous United States. The annual wind energy potential of New Mexico has been estimated to be 435 billion kWh. New Mexico has the potential to produce many times its own electrical consumption, which puts it in a position to export wind electric power...

Several developers are actively working to develop projects in New Mexico. In August 2003 Excel Energy and Cielo Wind Power announced plans to develop an 80 MW wind power plant in New Mexico on the Caprock south of Tucumcari. The plans depend upon renewal of the Federal wind energy production tax credit.

According to TRD's analysis of similar legislation in 2003 the New Mexico Public Regulation Commission ("PRC") recently adopted a regulation that requires persons supplying power to New Mexico customers to procure and distribute renewable energy in an amount equal to at least 5% of their total energy supplies by 2006, and to at least 10% by 2011. According to the U.S. Energy Information Administration ("EIA"), renewable energy generation in New Mexico accounted for 236 megawatt-hours out of total generation of 32,341 megawatt-hours in 1998, for a percentage of 0.7%. Thus, to meet the PRC's required percentage, generators will have to substantially increase their renewable power generation within the next few years.

### **POSSIBLE QUESTIONS**

Would companies receiving the GRT reduction also have the ability to receive benefits through the use of industrial revenue bonds?

**SN/lg**